

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Davison	County Genesee
Fiscal Year End June 30, 2006	Opinion Date October 16, 2006	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

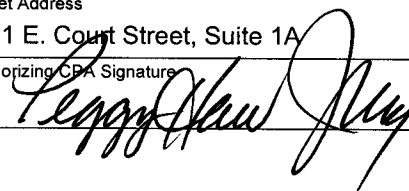
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 810-767-5350	
Street Address 111 E. Court Street, Suite 1A		City Flint	State MI
Zip 48502			
Authorizing CPA Signature 		Printed Name Peggy Haw Jury, CPA	License Number 1101009025

**Financial Report
with Supplemental Information**

**City of Davison
Davison, Michigan**

June 30, 2006

**City of Davison
Financial Report
Year Ended June 30, 2006**

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**City of Davison
Financial Report
Year Ended June 30, 2006**

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Introductory Section

**Annual Financial Report
City of Davison, Michigan
June 30, 2006**

List of Elected and Appointed Officials

Mayor

Frederick R. Rappuhn

City Council

Ralph Arceo
Ronald D. Emery
James Hansen
Kevin McKeague
Keith Flewelling
Donald Csutoras

Appointed Officials

Peter Auger, City Manager
Cynthia VanMegroet, Treasurer
Cynthia L. Payton, Clerk
William P. Brandon, Police Chief
Colleen Hackney, Community
Development Director

Financial Section



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Independent Auditor's Opinion

To the Honorable Mayor and the City Council
City of Davison, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Davison's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Davison's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 16, 2006

Management's Discussion and Analysis

City of Davison Management's Discussion and Analysis

This section of the City of Davison's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The City's Total Net Assets are \$11,066,360.
- During the year, the City's governmental expenses were \$343,999 less than the \$3,126,557 generated in taxes, other revenues and other financing sources for governmental programs.
- The City's over-all unrestricted net assets are \$4,305,228.
- General fund expenditures exceeded revenues by \$90,717 before operating transfers out. After operating transfers and proceeds from issuance of debt of \$223,707, the net increase in fund balance was \$132,990 leaving the General Fund with a fund balance of \$1,536,731.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Summary Condensed Statement of Net Assets

	Governmental Activities		Business- type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current assets	\$3,417,300	\$3,582,947	\$ 2,959,179	\$2,514,359	\$ 6,376,479	\$ 6,097,326
Noncurrent assets:						
Long term receivable	109,660	138,763	-	-	109,660	138,763
Restricted assets	-	-	688,683	1,364,868	688,683	1,364,868
Capital assets	<u>3,180,071</u>	<u>2,974,190</u>	<u>8,327,387</u>	<u>8,352,042</u>	<u>11,507,458</u>	<u>11,326,232</u>
Total assets	<u>6,707,031</u>	<u>6,695,900</u>	<u>11,975,249</u>	<u>12,231,269</u>	<u>18,682,280</u>	<u>18,927,169</u>
Current liabilities	426,518	731,908	351,090	512,970	781,678	1,244,878
Long-term liabilities	<u>450,261</u>	<u>477,739</u>	<u>6,389,051</u>	<u>6,699,981</u>	<u>6,835,242</u>	<u>7,177,720</u>
Total liabilities	<u>876,779</u>	<u>1,209,647</u>	<u>6,740,141</u>	<u>7,212,951</u>	<u>7,616,920</u>	<u>8,422,598</u>

Summary Condensed Statement of Net Assets – (continued)

	Governmental Activities		Business- type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net assets:						
Invested in capital assets- net of related debt	2,668,100	2,486,240	1,619,266	1,342,061	4,287,366	3,828,301
Restricted	963,642	1,158,048	1,550,019	1,492,613	2,513,661	2,650,661
Unrestricted	<u>2,198,510</u>	<u>1,841,965</u>	<u>2,066,823</u>	<u>2,183,644</u>	<u>4,265,333</u>	<u>4,025,609</u>
Total net assets	<u>\$5,830,252</u>	<u>\$5,486,253</u>	<u>\$ 5,236,108</u>	<u>\$5,018,318</u>	<u>\$11,066,360</u>	<u>\$ 10,504,571</u>

The governmental net assets increased 6 percent from a year ago – increasing from \$5,486,253 to \$5,830,252. In contrast, last year's net assets increased by 7.5 percent.

Unrestricted net assets of governmental activities – the part of net assets that can be used to finance day-to-day operations increased by \$356,545 for the governmental activities. This represents a increase of approximately 19 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,198,510, or about 79 percent of expenditures.

The net assets of business type activities increased 4.3 percent from a year ago – increasing from \$5,018,318 to \$5,236,108. In contrast last year's net assets increased by only 5 percent.

Unrestricted net assets of business type activities– the part of net assets that can be used to finance day-to-day operations decreased by \$116,821. This represents a decrease of approximately 5 percent. The current level of unrestricted net assets stands at \$2,066,823, or about 80 percent of expenditures.

Summary Condensed Income Statement

	Governmental Activities		Business- type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue:						
Program revenue:						
Charges for services	\$ 589,642	\$ 621,912	\$1,809,845	\$1,640,960	\$ 2,399,487	\$2,262,872
Operating grants and contributions	333,606	418,570	26,409	103,675	360,015	522,245
Capital grants and contributions	33,470	326,598	-	-	33,470	326,598
General revenue:						
Property taxes	1,333,650	1,421,414	-	-	1,333,650	1,421,414
State-shared revenue	609,980	616,154	-	-	609,980	616,154
Franchise fees	66,771	86,566	-	-	66,771	86,566
Interest	<u>159,438</u>	<u>67,476</u>	<u>126,674</u>	<u>63,515</u>	<u>286,112</u>	<u>130,991</u>
Total revenue	3,126,557	3,558,690	1,962,928	1,808,150	5,089,485	5,366,840

Summary Condensed Income Statement – (continued)

	Governmental Activities		Business- type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program expenses:						
Legislative	19,968	19,852	-	-	19,968	19,852
General government	603,662	622,607	-	-	603,662	622,607
Public safety	1,310,254	1,307,935	-	-	1,310,254	1,307,935
Public works	564,739	971,761	-	-	564,739	971,761
Recreation and culture	274,497	225,188	-	-	274,497	225,188
Interest on long-term debt	9,438	19,769	-	-	9,438	19,769
Water and sewer	-	-	1,745,138	1,564,577	1,745,138	1,564,577
Total program expenses	<u>2,782,558</u>	<u>3,167,112</u>	<u>1,745,138</u>	<u>1,564,577</u>	<u>4,527,696</u>	<u>4,731,689</u>
Change in net assets	343,999	391,578	217,790	243,573	561,789	635,151
Net assets – beginning of year	<u>5,486,253</u>	<u>5,094,675</u>	<u>5,018,318</u>	<u>4,774,745</u>	<u>10,504,571</u>	<u>9,869,420</u>
Net assets – end of year	<u>\$5,830,252</u>	<u>\$5,486,253</u>	<u>\$5,236,108</u>	<u>\$5,018,318</u>	<u>\$11,066,360</u>	<u>\$10,504,571</u>

Governmental Activities

The City's total governmental revenues decreased by \$432,133. The decrease, which represents 12 percent, was primarily due to the reduced state grant funding from prior years which had been received for the trailway.

Expenses decreased by \$384,554 during the year.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole.

The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2006 include the General Fund, Major Streets and Local Streets.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1,236,727 in 2006. Police services are partially supported by a \$1.5 mill levy which is designated specifically for police protection.

Capital Assets

At the end of 2006, the City had invested approximately \$4.3 million in capital assets, net of related debt. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed cities to comply with this portion of Statement 34 prospectively. Additional information on the City's capital assets can be found in Note III C of this report.

Long-term Debt

At year-end the City had \$552 thousand in bonds and notes outstanding for governmental activities and \$6.7 million in bonds and notes outstanding for business type activities.

Contacting the City's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Davison, 200 E. Flint Street, Davison, Michigan 48423.

Basic Financial Statements

Government-wide Financial Statements

City of Davison
Statement of Net Assets
June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,080,358	\$ 397,556	\$ 1,477,914
Investments	1,913,961	2,227,442	4,141,403
Receivables	36,807	276,020	312,827
Due from component units	77,875	-	77,875
Due from other governments	425,780	-	425,780
Internal balances	(14,253)	14,253	-
Inventory	6,432	19,801	26,233
Restricted assets:			
Cash and cash equivalents	-	688,683	688,683
Other assets	-	25,107	25,107
Capital assets (not depreciated)	1,754,252	1,000	1,755,252
Capital assets (net of accumulated depreciation)	1,425,819	8,326,387	9,752,206
Total assets	6,707,031	11,976,249	18,683,280
Liabilities			
Accounts payable	16,160	24,748	40,908
Accrued liabilities	134,717	3,320	138,037
Deposits	-	3,952	3,952
Deferred revenue	-	-	-
Due to primary government	-	-	-
Due to other governments	174,037	-	174,037
Noncurrent liabilities:			
Due within one year	101,604	319,070	420,674
Due in more than one year	450,261	6,389,051	6,839,312
Total liabilities	876,779	6,740,141	7,616,920
Net Assets			
Invested in capital assets, net of related debt	2,668,100	1,619,266	4,287,366
Restricted for:			
Street maintenance and construction	752,174	-	752,174
Debt service	155,701	-	155,701
Capital projects	39,004	1,550,019	1,589,023
Other purposes	16,763	-	16,763
Unrestricted	2,198,510	2,066,823	4,265,333
Total net assets	\$5,830,252	\$5,236,108	\$11,066,360

See notes to financial statements.

Component Units	
Downtown Development Authority	Local Development Finance Authority
\$ 121,960	\$ 148,008
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
6,512	-
128,472	148,008
1,049	16,084
-	-
-	-
25,205	-
66,765	11,110
-	-
-	-
-	-
93,019	27,194
6,512	-
-	-
-	-
-	-
-	-
28,941	120,814
\$ 35,453	\$120,814

**City of Davison
Statement of Activities
Year Ended June 30, 2006**

Functions\Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
Legislative	\$ 19,968	\$ -	\$ -
General government	603,662	308,390	-
Public safety	1,310,254	17,554	400
Public works	564,739	216,424	333,206
Recreation and culture	274,497	47,274	-
Interest on long-term debt	9,438	-	-
Total governmental activities	2,782,558	589,642	333,606
Business-type activities:			
Sewer	678,241	866,449	8,600
Water	1,066,897	943,396	17,809
Total business-type activities	1,745,138	1,809,845	26,409
Total primary government	\$ 4,527,696	\$ 2,399,487	\$ 360,015
Component units:			
Davison Downtown Development Authority	\$ 104,077	\$ -	\$ 7,213
Davison Local Finance Development Authority	66,076	-	-
Total component units	\$ 170,153	\$ - 0 -	\$ 7,213
General revenues:			
Property taxes			
State shared revenues			
Franchise fees			
Unrestricted investment earnings			
Total general revenues			
Change in net assets			
Net assets - Beginning			
Net assets - Ending			

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Capital Grants and Contributions	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Development Finance Authority
\$ -	\$ (19,968)	\$ -	\$ (19,968)	\$ -	\$ -
-	(295,272)	-	(295,272)	-	-
-	(1,292,300)	-	(1,292,300)	-	-
-	(15,109)	-	(15,109)	-	-
33,470	(193,753)	-	(193,753)	-	-
-	(9,438)	-	(9,438)	-	-
33,470	(1,825,840)	-	(1,825,840)	-	-
-	-	196,808	196,808	-	-
-	-	(105,692)	(105,692)	-	-
-	-	91,116	91,116	-	-
<u>\$ 33,470</u>	<u>(1,825,840)</u>	<u>91,116</u>	<u>(1,734,724)</u>	<u>-</u>	<u>-</u>
-	-	-	-	(96,864)	-
-	-	-	-	-	(66,076)
<u>\$ - 0 -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(96,864)</u>	<u>(66,076)</u>
	1,333,650	-	1,333,650	108,917	39,414
	609,980	-	609,980	-	-
	66,771	-	66,771	-	-
	159,438	126,674	286,112	2,711	1,359
	2,169,839	126,674	2,296,513	111,628	40,773
	343,999	217,790	561,789	14,764	(25,303)
	5,486,253	5,018,318	10,504,571	20,689	146,117
<u>\$ 5,830,252</u>	<u>\$ 5,236,108</u>	<u>\$ 11,066,360</u>	<u>\$ 35,453</u>	<u>\$ 120,814</u>	

See notes to financial statements.

Fund Financial Statements

**City of Davison
Balance Sheet
Governmental Funds
June 30, 2006**

	General	Major Street	Local Street	Nonmajor Governmental Funds	Totals
Assets					
Cash and cash equivalents	\$ 232,303	\$ 385,514	\$ 59,473	\$ 206,676	\$ 883,966
Investments	1,261,914	100,000	150,000	-	1,511,914
Receivables:					
Taxes	10,813	-	-	-	10,813
Accounts	13,622	-	-	-	13,622
Special assessments	-	-	3,945	-	3,945
Interest	6,694	693	1,040	-	8,427
Due from other funds	8,532	1,056	715	-	10,303
Due from other governmental unit:	371,549	40,091	14,140	-	425,780
Due from component unit:	77,875	-	-	-	77,875
Inventory	6,433	-	-	-	6,433
Total assets	\$ 1,989,735	\$ 527,354	\$ 229,313	\$ 206,676	\$ 2,953,078
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 14,033	\$ -	\$ -	\$ -	\$ 14,033
Accrued liabilities	133,520	173	247	-	133,940
Due to other funds	23,886	128	-	542	24,556
Due to other government:	171,905	-	-	2,132	174,037
Deferred revenue	109,660	-	3,945	-	113,605
Total liabilities	453,004	301	4,192	2,674	460,171
Fund Balances					
Reserved for:					
Inventory	6,433	-	-	-	6,433
Skate park	6,466	-	-	-	6,466
Disaster relief	1,000	-	-	-	1,000
Unreserved:					
Designated for subsequent years' expenditures	120,866	-	-	-	120,866
Unreserved, reported in					
General fund	1,401,966	-	-	-	1,401,966
Debt service funds	-	-	-	155,701	155,701
Special revenue funds	-	527,053	225,121	9,297	761,471
Capital projects fund	-	-	-	39,004	39,004
Total fund balances	1,536,731	527,053	225,121	204,002	2,492,907
Total liabilities and fund balances	\$ 1,989,735	\$ 527,354	\$ 229,313	\$ 206,676	\$ 2,953,078

See notes to financial statements.

**City of Davison
Reconciliation of the Balance Sheet
to the Statement of Net Assets
Year Ended June 30, 2006**

Fund balances reported in governmental funds	\$ 2,492,907
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,952,855
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	113,608
Long term liabilities, including long term notes payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(551,865)
Internal service fund is included as part of governmental activities	<u>822,747</u>
Net assets of governmental activities	<u><u>\$ 5,830,252</u></u>

See notes to financial statements.

City of Davison
Statement of Revenue, Expenditures, and Changes in Fund Balances -
Governmental Funds
Year Ended June 30, 2006

	General	Major Street	Local Street	Nonmajor Governmental Funds	Totals
Revenue					
Property taxes	\$ 1,333,346	\$ -	\$ -	\$ 305	\$ 1,333,651
Licenses and permits	17,266	-	-	-	17,266
Intergovernmental revenue					
Federal	-	-	-	-	-
State and local	699,735	261,648	85,637	-	1,047,020
Charges for services	92,362	-	-	191,588	283,950
Fines and forfeits	28,843	-	-	-	28,843
Interest income	91,823	20,455	8,354	18,466	139,098
Miscellaneous revenue	180,008	-	-	-	180,008
Total revenue	2,443,383	282,103	93,991	210,359	3,029,836
Expenditures					
Legislative	19,968	-	-	-	19,968
General governmental	562,542	-	-	-	562,542
Public safety	1,357,785	-	-	-	1,357,785
Public works	348,808	204,512	128,510	199,420	881,250
Recreation and cultural	244,997	-	-	-	244,997
Capital outlay	-	-	-	24,005	24,005
Debt service:					
Principal payments	-	-	-	225,000	225,000
Interest and fiscal charges	-	-	-	9,438	9,438
Total expenditures	2,534,100	204,512	128,510	457,863	3,324,985
Excess (deficiency) of revenue over expenditures	(90,717)	77,591	(34,519)	(247,504)	(295,149)
Other financing sources (uses)					
Proceeds from issuance of debt	249,207	-	-	-	249,207
Transfers in	-	5,000	63,680	-	68,680
Transfers out	(25,500)	(58,680)	-	-	(84,180)
Total other financing sources (uses)	223,707	(53,680)	63,680	-	233,707
Net change in fund balances:	132,990	23,911	29,161	(247,504)	(61,442)
Fund balances - Beginning of year	1,403,741	503,142	195,960	451,506	2,554,349
Fund balances - End of year	\$ 1,536,731	\$ 527,053	\$ 225,121	\$ 204,002	\$ 2,492,907

See notes to financial statements.

**City of Davison
Governmental Funds
Reconciliation of the Statement of Revenue,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$ (61,442)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation:

Capital outlay	303,230
Depreciation expense	(49,760)

Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(29,108)
--	----------

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net assets.	(249,950)
---	-----------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	225,929
---	---------

Decrease in accumulated employee sick and vacation pay and other similiar expenses reported in the statement of activities do no require the use of current resources, and therefore are not reported in the fund statements untile they come due for payment	174,895
---	---------

Internal Service Funds are also included as governmental activities	30,205
---	--------

Change in Net Assets of Governmental Activities	\$ 343,999
--	-------------------

See notes to financial statements.

**City of Davison
Statement of Net Assets
Proprietary Funds
June 30, 2006**

	Business-type Activities- Enterprise Funds			Governmental Activities Internal Service Fund
	Sewer	Water	Totals	
Assets				
Current assets:				
Cash and cash equivalents	\$ 87,525	\$ 310,031	\$ 397,556	\$ 196,392
Investments	1,270,694	956,748	2,227,442	402,048
Accounts receivable	125,954	147,689	273,643	-
Accrued interest	2,377	-	2,377	-
Due from other funds	2,128	63,382	65,510	-
Inventory of supplies	-	19,801	19,801	-
Total current assets	1,488,678	1,497,651	2,986,329	598,440
Noncurrent assets:				
Restricted cash and cash equivalents	-	688,683	688,683	-
Bond issuance costs	-	25,107	25,107	-
Capital assets:				
Land	-	1,000	1,000	-
Buildings	-	139,395	139,395	-
Improvements other than buildings	2,423,543	8,990,897	11,414,440	-
Machinery and equipment	116,126	75,056	191,182	1,035,101
Accumulated depreciation	(1,735,466)	(1,683,164)	(3,418,630)	(807,890)
Total capital assets, net	804,203	7,523,184	8,327,387	227,211
Total non current assets	804,203	8,236,974	9,041,177	227,211
Total assets	2,292,881	9,734,625	12,027,506	825,651

See notes to financial statements.

	Business-type Activities- Enterprise Funds			Governmental Activities Internal Service Fund
	Sewer	Water	Totals	
Liabilities				
Current liabilities:				
Accounts payable	24,621	127	24,748	2,127
Accrued liabilities	1,653	1,667	3,320	777
Payable from restricted assets:				
Water meter deposits	-	3,952	3,952	-
Bonds payable - current	-	315,000	315,000	-
Due to other funds	49,257	2,000	51,257	-
Current portion - debt	2,035	2,035	4,070	-
Total current liabilities	77,566	324,781	402,347	2,904
Noncurrent liabilities				
Bonds payable	2,035	6,387,016	6,389,051	-
Total liabilities	79,601	6,711,797	6,791,398	2,904
Net Assets				
Invested in capital assets, net of related debt	800,133	819,133	1,619,266	227,211
Restricted for capital improvement	474,168	1,075,851	1,550,019	-
Unrestricted	938,979	1,127,844	2,066,823	595,536
Total net assets	\$ 2,213,280	\$ 3,022,828	\$ 5,236,108	\$ 822,747

City of Davison
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2006

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Fund
	Sewer	Water	Totals	
Operating Revenue				
Charges for services	\$ 865,299	\$ 927,525	\$ 1,792,824	\$ 250,273
Operating Expenses				
Sewage maintenance	15,252	-	15,252	-
Water plant operations	-	73,291	73,291	-
Wages and benefits	179,038	351,947	530,985	78,644
Treatment fees	294,464	-	294,464	-
Supplies	13,257	33,068	46,325	54,118
Heat, light, power	616	63,617	64,233	-
Depreciation	43,642	220,511	264,153	74,431
Amortization	-	2,411	2,411	-
Equipment maintenance and repair	33,483	75,332	108,815	17,287
Building rent and maintenance	17,755	17,755	35,510	15,939
Insurance expense	10,602	12,244	22,846	15,490
Professional fees	6,905	7,352	14,257	-
Sampling	-	10,532	10,532	-
Miscellaneous	63,227	22,768	85,995	-
Total operating expenses	678,241	890,828	1,569,069	255,909
Operating income (loss)	187,058	36,697	223,755	(5,636)
Nonoperating Revenues (Expenses)				
Intergovernmental grant	-	8,309	8,309	-
Tower rentals	-	10,869	10,869	-
Interest revenue	50,656	76,018	126,674	20,341
Miscellaneous	1,150	5,002	6,152	-
Interest expense and fiscal charges	-	(176,069)	(176,069)	-
Total nonoperating revenues (expenses)	51,806	(75,871)	(24,065)	20,341
Income (loss) - Before contributions and transfers	238,864	(39,174)	199,690	14,705
Capital contributions - tap fees	8,600	9,500	18,100	-
Transfers in	-	-	-	15,500
Changes in net assets	247,464	(29,674)	217,790	30,205
Net assets - Beginning of year	1,965,816	3,052,502	5,018,318	792,542
Net assets - End of year	\$ 2,213,280	\$ 3,022,828	\$ 5,236,108	\$ 822,747

See notes to financial statements.

**City of Davison
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2006**

	Enterprise Funds			Governmental Activities Internal Service Fund
	Sewer	Water	Total	
Cash Flows from Operating Activities:				
Receipts from customers	\$ 863,214	\$ 918,925	\$ 1,782,139	\$ 250,272
Payments to suppliers	(449,652)	(494,544)	(944,196)	(102,860)
Payments to employees	(177,723)	(351,928)	(529,651)	(78,189)
Net cash provided by operating activities:	235,839	72,453	308,292	69,223
Cash flows from Noncapital Financing Activities:				
Repayment of interfund receivables and payable:	(26)	250,000	249,974	(590)
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	(128,585)	(102,592)	(231,177)	(26,847)
Tap in revenue	8,600	9,500	18,100	-
Grant revenue	-	8,309	8,309	-
Interfund transfers	-	-	-	15,500
Repayment of long-term debt	-	(310,000)	(310,000)	-
Interest paid on capital debt	-	(176,069)	(176,069)	-
Net cash used in capital and related related financing activities:	(119,985)	(570,852)	(690,837)	(11,347)
Cash Flows from Investing Activities:				
Purchase of investments	(676,869)	(615,876)	(1,292,745)	(97,136)
Rentals and other miscellaneous charges	1,150	15,871	17,021	-
Interest earned	50,656	76,016	126,672	20,341
Net cash used in investing activities:	(625,063)	(523,989)	(1,149,052)	(76,795)
Net Decrease in Cash and Cash Equivalents	(509,235)	(772,388)	(1,281,623)	(19,509)
Cash and Cash Equivalent - Beginning of year	596,760	1,771,102	2,367,862	215,901
Cash and Cash Equivalents -End of year	\$ 87,525	\$ 998,714	\$ 1,086,239	\$ 196,392
Reconciliation of Operating Income to Net Cash from Operating Activities				
Operating income	\$ 187,058	\$ 36,697	\$ 223,755	\$ (5,636)
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization	43,642	222,922	266,564	74,431
Changes in operating assets and liabilities:				
Accounts receivable	(2,088)	(8,993)	(11,081)	-
Accounts payable	5,912	(178,584)	(172,672)	(26)
Accrued liabilities	1,315	19	1,334	454
Water meter deposits	-	392	392	-
Net cash provided by operating activities:	\$ 235,839	\$ 72,453	\$ 308,292	\$ 69,223

See notes to financial statements.

City of Davison
Statement of Fiduciary Net Assets
June 30, 2006

	Pension Trust Fund	Agency Fund
Assets		
Cash and cash equivalents:		
Bank deposits	\$ -	\$ 33,631
Investments:		
Annuity contracts	304,872	-
	<hr/>	<hr/>
Total assets	\$ 304,872	\$ 33,631
	<hr/> <hr/>	<hr/> <hr/>
Liabilities		
Due to other governments	-	33,631
	<hr/>	<hr/>
Net Assets Held in Trust for Pension Benefits	\$ 304,872	\$ -
	<hr/> <hr/>	<hr/> <hr/>

City of Davison
Statement of Changes in Fiduciary Net Assets
Pension Trust Fund
Year Ended June 30, 2006

	Pension Benefit Trust Fund
Additions	
Contributions -employer	\$ 180,000
Investment income:	
Gain	17,926
Total additions	197,926
Deductions	
Premiums	61,151
Administrative expenses	3,249
Total deductions	64,400
Net Increase in Net Assets Held	133,526
Net Assets Held in Trust for Pension Benefits	
Beginning of year	171,346
End of year	\$ 304,872

Notes to Basic Financial Statements

City of Davison
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies

A. Reporting entity

The City of Davison was incorporated in 1939, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Davison (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of significant accounting policies used by the City of Davison:

Principles used in determining the scope of the entity for financial reporting purposes:

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Davison (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended component units:

Component units - In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended component units - for financial reporting purposes, City of Davison Building Authority has been reported as if it were a part of this City's operations because:

- City has pledged its full faith and credit as a guarantee for the Authority's outstanding debt
- City is obligated to fund deficits of the Authority

Davison Area Library

- The City has entered into an agreement between the Township of Davison, the City of Davison, and Richfield Township to share the expenses of providing a library for the use of the residents of the three governmental units. The City of Davison maintains the accounting records for the library as a general fund activity center with the Townships of Davison and Richfield reimbursing the City for their share of the library expenses. The municipalities share the expenses of the library according to the following percentages: 35% by the City, 50% by Davison Township, and 15% by Richfield Township.

City of Davison
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies - (continued)

A. Reporting entity – (continued)

Principles used in determining the scope of entity for financial reporting purposes: - (continued)

Discretely presented component units:

Discretely presented component units - The component units' columns in the combined financial statements include the financial data of the City's other component units. These units are reported in a separate column to emphasize that it is legally separate from the City.

Audited financial statements of each individual component unit are available at City offices.

City of Davison Downtown Development Authority (DDA)

- City appoints governing board
- City approves budget of DDA
- City must approve any tax levy of the DDA
- Surplus funds existing at termination of DDA vest to the City

City of Davison Local Development Finance Authority (LDFA)

- City appoints the governing board members
- City Council approves the budget of LDFA
- City must approve any tax increment financing plan
- Surplus funds existing at termination of LDFA vest to the City

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

City of Davison
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies - (continued)

B. Government-wide and fund financial statements – (continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a “deferred revenue” liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Street Funds account for the City’s share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction. The City of Davison has decided to show these funds as major governmental funds.

City of Davison
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies - (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

The government reports the following major proprietary funds:

The Water Supply and Sewer Disposal System is a division of the City's Department of Public Work. Separate funds are maintained for the operations of the water distribution system and sewage pumping and collection system.

Additionally, the government reports the following fund types:

Internal service funds account for fleet management services provided to other departments or agencies of the government, or to other governments on a cost reimbursement basis.

Agency Funds account for assets held by the City as an agent for individuals, private organizations and other governments.

Agency funds are reported as fiduciary funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, liabilities, and net assets or equity

1. Deposits

The City and its component units have classified all checking and savings accounts as cash and cash equivalents.

The City and its component units consider all highly liquid investments (including restricted assets) with a maturity of three months or more when purchased to be investments.

City of Davison
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies - (continued)

D. Assets, liabilities, and net assets or equity – (continued)

2. Investments:

Investments for the City, as well as for its component units, are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

3. Receivables and payables

In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade, notes, contracts, and property tax receivables are shown net of an allowance for uncollectibles. No allowance has been recorded as management deems all receivables to be collectible.

4. Inventories and prepaid items

All inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted assets

The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

6. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired during the fiscal year ended June 30, 2004 to 2006. Prior to the implementation of GASB No. 34, records on these assets were not maintained. The City is not required to retroactively determine costs and accumulated depreciation prior to July 1, 2003.

City of Davison
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

6. Capital assets – (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39
Improvements other than buildings	10-40
Machinery and equipment	5-7
Infrastructure	39

7. Deferred revenues

Deferred revenues represent receipts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City reported as deferred revenues the amount of \$3,945 in the Local Streets Special Revenue Fund, which relates directly to special assessments receivable. See footnote III F for details of a long-term rent receivable which has been shown as deferred revenue (\$109,660) in the General Fund.

8. Accumulated unpaid vacation and sick pay

At June 30, 2006, unrecorded liabilities for salaried sick pay are zero since any unused sick days at June 30 have been paid to each employee (other than police department and DPW employees), at 1/2 of their unused days. (Note - Police employees are permitted to carryover a maximum of twenty-nine (29) sick days and 120 hours of vacation. Police employees are only paid for these sick days upon normal or disability retirement and termination. This liability is accrued in the government wide financial statements once it is anticipated that the police employee will retire from the City.) These hours are paid to the police employee upon termination of employment from the City and have been accrued in the government-wide financial statements. The unrecorded liability for salaried vacation pay is nominal and has not been accrued at June 30, 2006. (Only five days may be carried over annually from December to December for employees other than police department employees.) The DPW is allowed to carry over 10 days of leave time. DPW employees are paid out upon retirement or death.

9. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

City of Davison
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies - (continued)

D. Assets, liabilities, and net assets or equity – (continued)

9. Long-term obligations – (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

11. Property tax

Property taxes attach as an enforceable lien on all taxable real and personal property as of December 1. Taxes are levied on the following July 1, are payable on August 31, and collected without penalty through September 30. The City bills and collects its own property taxes and also taxes for the county and several school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the Current Tax Agency Fund. City property tax revenues are recognized as revenue in the fiscal year levied to the extent that they are measurable and available. Property tax administration fee revenue is recognized as revenue when received.

The City is permitted by charter to levy up to \$13.5 (13.5 mills) per \$1,000 of taxable value for general governmental services. For the year ended June 30, 2006, the City levied \$12.8004 per \$1,000 for general governmental services. Included in the maximum levy is 1.5 mills, which is designated specifically for police protection. As of June 30, 2006, \$1.5 per \$1,000 of taxable value was being levied for police services. The City is permitted to levy unlimited amounts for payment of existing general long-term debt obligations. As of June 30, 2006, there were no levies for long term debt retirement. The above noted millages resulted in \$1,176,945 of taxes for operating and \$156,401 of taxes for police protection

In 1981, the City's Downtown Development Authority (DDA) entered into tax incremental financing agreements with the City, Genesee County, Genesee Intermediate Schools, and Davison Community Schools for a fifteen-year period. In 1997, this plan was renewed with all units of government except Davison Community Schools for an additional fifteen years. (Proposal A passed by Michigan taxpayers eliminated the school millage from the calculation of the mills to be used to compute the taxes on the increase in assessed value within the tax increment financing area that can be captured.) Also in 2000 the DDA Authority expanded its boundaries and adopted a new District 2 plan.

In 1997, a Local Development Financing Authority (LDFA) was created to continue for a thirty-year period. The main difference between the LDFA Act and the DDA Act is that the LDFA district services manufacturing areas and does not have to be contiguous property.

City of Davison
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies - (continued)

D. Assets, liabilities, and net assets or equity – (continued)

11. Property tax – (continued)

Each Authority's tax increment revenue is calculated by multiplying the millage (of all entities involved) times the captured taxable value (the difference between current taxable value and the initial assessed value). The initial assessed values were established in 1981 for the DDA District 1, 1996 for the expanded DDA District 2, and 1997 for the LDFA.

12. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

II. Stewardship, compliance, and accountability

A. Budgetary information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the second Monday in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. Informational summaries of projected revenues and expenditures are provided for all other City funds, as well as estimated total costs and proposed methods of financing all capital construction projects.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance and in accordance with Public Act 621 of 1978 of the State of Michigan. All funds' budgets are enacted on a total fund basis.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) with the exception of the Special Revenue - Community Development Fund which is adopted on a project length basis.
5. Budget appropriations lapse at year end.
6. The original budget was amended during the year to be in compliance with the City Charter and applicable state law.

City of Davison
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds

A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated seven banks for the deposits of its funds.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$3,753,042 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the city evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Repurchase agreements	\$2,134,365	Counterparty

City of Davison
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds – (continued)

A. Deposits and investments – (continued)

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, investments consisted of an overnight repurchase agreement of \$2,134,365.

The nonunion pension plan investments consist of annuity contracts which are not rated and for which the internal interest rate is unknown.

B. Receivables

Receivables as of year end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental activities and fiduciary funds:

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Nonmajor Other Funds</u>	<u>Total</u>
Receivables:					
Interest and dividends	\$ 6,694	\$ 693	\$ 1,040	\$ -	\$ 8,427
Taxes	10,813	-	-	-	10,813
Accounts	13,622	-	-	-	13,622
Intergovernmental	371,549	40,091	14,140	-	425,780
Special assessment	-	-	3,945	-	3,945
Gross receivables	402,678	40,784	19,125	-	462,587
Less: allowance for uncollectibles	-	-	-	-	-
Net total receivables	<u>\$ 402,678</u>	<u>\$ 40,784</u>	<u>\$ 19,125</u>	<u>\$ -0-</u>	<u>\$ 462,587</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments not yet due (local streets)	\$ 3,945	\$ -
Long-term notes receivables (general fund)	109,660	-
Total deferred/unearned revenue for governmental funds	<u>\$113,605</u>	<u>\$ -0-</u>

City of Davison
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds – (continued)

B. Receivables – (continued)

Business type activities:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Receivables:			
Accounts	\$125,954	\$147,689	\$273,643
Accrued interest	2,377	-	2,377
	<hr/>	<hr/>	<hr/>
Gross receivables	128,331	147,689	276,020
Less: allowance for uncollectibles	-	-	-
	<hr/>	<hr/>	<hr/>
Net total receivables	<u>\$128,331</u>	<u>\$147,689</u>	<u>\$276,020</u>

C. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,518,252	\$236,000	\$ -	\$1,754,252
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, not being depreciated	1,518,252	236,000	-	1,754,252
	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, being depreciated:				
Buildings	1,239,230	-	-	1,239,230
Improvements other than buildings	648,712	-	-	648,712
Machinery and equipment	1,471,274	77,174	-	1,548,448
Infrastructure	540,290	16,899	-	557,189
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets being depreciated	3,899,506	94,073	-	3,993,579
	<hr/>	<hr/>	<hr/>	<hr/>
Less accumulated depreciation for:				
Buildings	(725,984)	(15,096)	-	(741,080)
Improvements other than buildings	(559,524)	(17,593)	-	(577,117)
Machinery and equipment	(1,158,060)	(91,503)	-	(1,249,563)
Infrastructure	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	(2,443,568)	(124,192)	-	(2,567,760)
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, being depreciated, net	1,455,938	(30,119)	-	1,425,819
	<hr/>	<hr/>	<hr/>	<hr/>
Governmental activities capital assets, net	<u>\$ 2,974,190</u>	<u>\$205,881</u>	<u>\$ -0-</u>	<u>\$ 3,180,071</u>

City of Davison
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds – (continued)

C. Capital assets – (continued)

Primary Government – (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Capital assets, being depreciated:				
Building	139,395	-	-	139,395
Systems	11,197,876	216,563	-	11,414,439
Machinery and equipment	168,248	22,935	-	191,183
Total capital assets, being depreciated	<u>11,505,519</u>	<u>239,498</u>	<u>-</u>	<u>11,745,017</u>
Less accumulated depreciation for:				
Buildings	(33,094)	(3,429)	-	(36,523)
Systems	(3,047,078)	(242,744)	-	(3,289,822)
Machinery and equipment	(74,305)	(17,980)	-	(92,285)
Total accumulated depreciation	<u>(3,154,477)</u>	<u>(264,153)</u>	<u>-</u>	<u>(3,418,630)</u>
Total capital assets, being depreciated, net	<u>8,351,042</u>	<u>(24,655)</u>	<u>-</u>	<u>8,326,387</u>
Business-type activities capital assets, net	<u>\$ 8,352,042</u>	<u>\$ (24,655)</u>	<u>\$ -0-</u>	<u>\$ 8,327,387</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

General government	\$111,357
Public safety	3,406
Public works	4,884
Recreation and culture	<u>4,545</u>

Total depreciation expense – governmental activities \$124,192

Business-type activities:

Sewer	\$ 43,642
Water	<u>220,511</u>

Total depreciation expense – Business-type activities \$264,153

City of Davison
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds – (continued)

C. Capital assets – (continued)

Discretely presented component units:

Activity for the City of Davison Downtown Development Authority (DDA) for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Machinery and equipment	\$ 31,110	\$ -	\$ -	\$ 31,110
Totals, capital assets being depreciated	31,110	-	-	31,110
Less accumulated depreciation for:				
Machinery and equipment	(21,206)	(3,392)	-	(24,598)
Total accumulated depreciation	(21,206)	(3,392)	-	(24,598)
Total capital assets, being depreciated, net	9,904	(3,392)	-	6,512
Capital assets, net	\$ 9,904	\$ (3,392)	\$ -0-	\$ 6,512

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Sewer	\$ 7,990
General	Community development	542
Major Streets	General	1,005
Major Streets	Sewer	51
Local Streets	General	715
Sewer	Major	128
Sewer	Water	2,000
Water	General	22,166
Water	Sewer	41,216
		<u>\$ 75,813</u>

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
City of Davison		
General Fund	Davison Downtown Development Authority	\$ 66,765
General Fund	Davison Local Development Finance Authority	11,110
		<u>\$ 77,875</u>

City of Davison
Notes to Financial Statements
June 30, 2006

III. Detailed notes on all funds – (continued)

D. Interfund receivables, payables, and transfers – (continued)

	<u>Transfer In</u>				
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Nonmajor Governmental</u>	<u>Internal Service Funds</u>	<u>Total</u>
Transfer out:					
General fund	\$ 5,000	\$ 5,000	\$ -	\$ 15,500	\$ 25,500
Major streets	-	58,680	-	-	58,680
Nonmajor governmental funds	-	-	-	-	-
Total transfers out	<u>\$ 5,000</u>	<u>\$ 63,680</u>	<u>\$ -0-</u>	<u>\$ 15,500</u>	<u>\$ 84,180</u>

Transfers between funds were primarily for operating purposes.

E. Operating leases

The DDA leases storage space located in the City under a lease agreement with the City. The lease may be terminated by either party after a 30-day notification period. The lease expenditure for the component unit and corresponding lease revenue for the City amounted to \$900 in the current year.

Future minimum payments required under the lease are as follows:

<u>Year Ending</u>	<u>Amount</u>
2007	<u>\$ 225</u>

F. Long-term rent receivable

The City entered into a long-term lease with the State of Michigan for space located at 300 North Main Street to be used as a Secretary of State office. This lease calls for an initial term (noncancelable) of ten years with two renewal options of five years each. The initial ten year term has been recorded in the General Fund as a receivable and deferred revenue. The rent will be received as detailed below:

<u>Fiscal Year Ending</u>	<u>Rent</u>
2007	\$ 29,735
2008	29,735
2009	29,735
2010	<u>20,455</u>
	<u>\$109,660</u>

City of Davison
Notes to Financial Statements
June 30, 2006

II. Detailed notes on all funds – (continued)

G. Long-term debt

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government. All Michigan Municipal Bond Authority debt is secured by future State of Michigan Revenue Sharing payments the City is entitled to receive under state law. All revenue bonds are supported by the revenues generated from the operation of the respective facilities constructed. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

A summary of bond transactions for the year ended June 30, 2006, and the composition of the June 30, 2006, long-term debt balance follows:

	Final Payment <u>Due</u>	Interest Rate or <u>Range</u>	Balance at June 30, <u>2005</u>	Issuances (Retirements) <u>During Year</u>	Balance at June 30, <u>2006</u>	Due Within <u>One Year</u>
Governmental activities:						
Land purchases:						
Rising Street	10/1/2019	4.88%	\$167,950	\$ -	\$167,950	\$ -
South State Street	10/1/2020	4.37	-	126,000		
				(186)	125,814	
Genesee Street	2/1/2021	4.65	-	110,000	110,000	
1996 Street Improvement	10/1/2005	4.0-4.8	125,000	(125,000)	-	-
1998 General Obligation Unlimited Tax Refunding Bonds	10/1/2006	3.9-4.25	195,000	(100,000)	95,000	95,000
Accumulated vacation and sick pay			39,151	743	39,894	-
Net pension obligation			175,638	(175,638)	-	-
BS&A Software	6/30/08	-	-	13,207	13,207	6,604
Total governmental activities			<u>\$702,739</u>	<u>\$(150,874)</u>	<u>\$551,865</u>	<u>\$101,604</u>
Business - type activities:						
2003A Water Supply and Sewage Disposal System Revenue Refunding Bonds	9/2016	3.95%	\$ 600,000	\$ (45,000)	\$ 555,000	\$ 45,000
2003 Water Capital Improvement Bonds	10/1/2018	1.2-4.45	570,000	(30,000)	540,000	30,000
Drinking Water Revolving Loan Fund Debt	10/1/2024	2.5	5,839,981	(235,000)	5,604,981	240,000
BS&A Software	6/30/2008	-	-	8,140	8,140	4,070
Total Business - type activities			<u>\$7,009,981</u>	<u>\$(301,860)</u>	<u>\$6,708,121</u>	<u>\$319,070</u>

City of Davison
Notes to Financial Statements
June 30, 2006

II. Detailed notes on all funds – (continued)

G. Long-term debt – (continued)

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30,	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2007	\$101,604	\$ 20,338	\$ 319,070	\$ 177,896
2008	6,603	19,039	329,070	169,317
2009	-	19,039	340,000	150,829
2010	-	19,039	345,000	140,881
2011	-	19,039	365,000	130,345
2012-2016	-	95,196	1,970,000	539,717
2017-2021	403,764	81,382	1,790,000	270,265
2022-2025	-	-	1,249,981	57,126
Total	<u>\$511,971</u>	<u>\$273,072</u>	<u>\$6,708,121</u>	<u>\$1,636,376</u>

Interest is payable on all obligations semi-annually or annually. Principal is paid on an annual basis.

Total defeased debt still outstanding at June 30, 2006:

1987 Storm Drain Bonds	\$100,000
1995 Water Supply and Sewage Disposal System Revenue Bonds	<u>480,000</u>
	<u>\$580,000</u>

Act 279, Public Acts of State 1909, as amended, provides that net indebtedness of cities cannot exceed 10% of the real and personal property in the city. The legal debt limit as of June 30, 2005, is 10% of the 2004 Valuation of \$108,340,431 or \$10,834,043. There is \$650,000 of debt incurred by the City which is not specifically exempt from this 10% limitation. The City may, therefore, incur up to \$10,184,043 of new debt subject to this limitation.

III. Other information

A. Retirement plans and other post-employment benefits

The City has a separate single-employer non-contributory defined benefit pension plans: the Non-Union Pension Plan. The City also participates in the Municipal Employees Retirement System of Michigan (M.E.R.S.) which is an agent multi-employer public retirement system (PERS) for the Police, Police Command, Police Dispatch/Secretaries, and DPW Pension Plans. The four M.E.R.S. plans are all contributory defined benefit plans. The City has no fiduciary responsibility for the M.E.R.S. plan. M.E.R.S. issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole. Benefit provisions and contribution obligations have been established by the City Council. M.E.R.S. issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be obtained by writing to M.E.R.S. 1134 Municipal Way, Lansing, Michigan 48917.

City of Davison
Notes to Financial Statements
June 30, 2006

III. Other information – (continued)

A. Retirement plans and other post-employment benefits – (continued)

Police patrol pension plan:

All full-time police patrol employees, who are a member of a class of employees covered by a collective bargaining agreement between City of Davison and a union representing its police employees, are eligible to participate in the M.E.R.S. police patrol pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2005, the most recent valuation, there were six active plan members, four retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Per union contract all participants must contribute four point three percent (4.30%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

Police command pension plan:

All full-time police department command officers are eligible to participate in the M.E.R.S. police command pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2005, the most recent valuation, there were two active plan members, zero retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Participants must contribute three percent (3%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death, and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

Police dispatchers/secretaries pension plan:

All full-time police department dispatchers/secretaries are eligible to participate in the M.E.R.S. police dispatchers/secretaries pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2004, the most recent valuation, there was one active plan member, one retiree and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Per union contract participants must contribute three percent (3%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

City of Davison
Notes to Financial Statements
June 30, 2006

III. Other information – (continued)

A. Retirement plans and other post-employment benefits – (continued)

Police dispatchers/secretaries pension plan: - (continued)

The plan provides retirement, death, and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 6 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

Public works pension plan:

All full-time public works employees are eligible to participate in the M.E.R.S DPW plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of July 1, 2004, the most recent valuation, there were 8 active plan members, zero retirees and beneficiaries receiving benefits, and 0 terminated plan members not yet receiving benefits.

The plan does not require nor does it permit employee contributions.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 55 or with 30 years of service.

Non-union pension plan:

All full-time non-union employees are eligible to participate in the plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of July 1, 2005, the most recent valuation, there were 10 active plan members, zero retirees and beneficiaries receiving benefits and 1 terminated plan member not yet receiving benefits.

The plan does not require nor does it permit employee contributions.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 5 years of service. Participants may elect normal retirement at age 60 or after 5 years of service, whichever is later. The plan also provides for early retirement at age 55 with 15 years of service.

City of Davison
Notes to Financial Statements
June 30, 2006

III. Other information – (continued)

A. Retirement plans and other post-employment benefits – (continued)

Funding method and assumptions:

The terms of the plans require that the City shall make contributions of at least as great as the amount certified by the plan's actuary as the amount necessary to keep the plan in full force. The employer contributions ranged from 16.31% to 38.64% of covered payroll for the M.E.R.S. plans.

	<u>DPW</u>	<u>Non-Union</u>	<u>Police</u>	<u>Police Command</u>	<u>Police Dispatch/ Secretaries</u>
Annual Required Contribution (ARC)	\$ 55,074	\$ 180,421	\$ 57,496	\$ 22,229	\$ 13,043
Interest on NPO	-	(6,907)	-	-	-
Adjustment to APC	-	-	-	-	-
Annual Pension Contribution (APC)	55,074	173,514	57,496	22,229	13,043
Contributions Made	(55,074)	(180,000)	(57,496)	(22,229)	(13,043)
Decrease in Net Pension Obligation (NPO)	-	(6,486)	-	-	-
Net Pension (overpayment) underpayment - beginning of year	-	72,849	-	-	-
Net Pension (overpayment) underpayment – end of year	\$ -0-	\$66,363	\$ -0-	\$ -0-	\$ -0-
Actuarial valuation date	12/31/05	7/1/05	12/31/05	12/31/05	12/31/05
Actuarial cost method	Entry age	Aggregate	Entry age	Entry age	Entry age
Amortization method	Level %	Level \$	Level %	Level %	Level %
Remaining amortization period (weighted)	31 years	22 years	31 years	31 years	31 years
Asset valuation method	Market	Market	Market	Market	Market
Actuarial assumptions					
Investment rate of return	8.0%	6.5%	8.0%	8.0%	8.0%
Projected salary increase	4.5	5.0	4.5	4.5	4.5

City of Davison
Notes to Financial Statements
June 30, 2006

III. Other information – (continued)

A. Retirement plans and other post-employment benefits – (continued)

Annual pension costs

Three year trend information regarding the annual pension costs (APC), percentage of APC contributed, and net pension obligation (NPO) are summarized by plan as follows:

	<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation (Overpayment) NPO</u>
<u>DPW</u>					
	6/30/06	12/31/05	\$ 55,074	100.00%	\$ -
<u>Non-Union</u>					
	6/30/06	7/1/05	180,421	99.77	66,363
	6/30/05	7/1/04	180,171	58.12	72,849
	6/30/04	7/1/03	161,282	93.00	10,159
<u>Police</u>					
	6/30/06	12/31/05	57,496	100.00	-
	6/30/05	12/31/04	63,029	100.00	-
	6/30/04	12/31/03	72,613	100.00	-
<u>Police Command</u>					
	6/30/06	12/31/05	22,229	100.00	-
	6/30/05	12/31/04	20,892	100.00	-
	6/30/04	12/31/03	19,582	100.00	-
<u>Police Dispatchers/Secretaries Pension Plan</u>					
	6/30/06	12/31/05	13,043	100.00	-
	6/30/05	12/31/04	9,526	100.00	-
	6/30/04	12/31/03	7,324	100.00	-

Post retirement benefits

The City provides post retirement benefits (health, dental, and optical) to all City retirees. (Effective July 1, 1992, a surviving spouse may continue in the retiree segment if he or she is eligible to assume pension benefits.) During the current year, 12 retirees received benefits. The total cost for these benefits for 2005 was \$129,563. The City pays for 100% of these costs as incurred and provides no funding for them as they are earned. There is no provision for employee contributions.

B. Deferred compensation plan

The City offers its employees a Deferred Compensation Plan created in accordance with IRC Section 457. The plan, available to substantially all City employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseen emergency.

City of Davison
Notes to Financial Statements
June 30, 2006

III. Other information – (continued)

B. Deferred compensation plan – (continued)

The law allows trusts to be created for the plan assets, thereby, insulating the assets from the City's general creditors. The City's plan administrator created the trust and placed the assets of the plan within the trust. As a result, the plans assets are not shown on the financial statements to reflect that the City has no fiduciary or administrative responsibility for this plan.

C. Building department revenues and expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The City chose the latter because historically, the expenditures have exceeded revenues. The activity related to construction code activity for the year ended June 30, 2006 is as follows:

Beginning reserve balance	\$ (228,688)
Revenues – building permits	15,326
Less: Expenditures	<u>(206,417)</u>
Excess expenditures over revenues	<u>(191,091)</u>
Ending reserve balance	<u><u>\$ (419,779)</u></u>

D. Risk management

Risk Management - primary government:

The City is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries. The City has purchased commercial insurance for coverage of all claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

E. Joint ventures

1. In April 1979, the City of Davison entered into a joint venture with the Township of Davison to create a Senior Citizens Authority. Richfield Township entered into the joint venture on July 1, 1996. The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and Townships. The Authority is governed by a seven member board appointed by the governing bodies of the City, Township, and Richfield Township. The seven member board is made up of two members from each municipality and the seventh member will be appointed alternately by the member municipalities. The agreement provides that the three municipalities will provide 1/3 of the net expenses, with the exception of utilities and insurance on the old center, which was applied against the City of Davison and Davison Township's portion of their expenses only. In the new building, all parties contributed to the cost of the center and share in its ownership on a percentage basis. All revenue from the new center is shared evenly. In addition, the board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval.

City of Davison
Notes to Financial Statements
June 30, 2006

III. Other information – (continued)

E. Joint ventures – (continued)

1. – (continued)

During the year ended June 30, 2006, the City's contribution to the Senior Citizens Authority was \$37,170.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at Authority headquarters.

The following is a summary of selected financial information of the Senior Citizens Authority:

	<u>Year Ended</u> <u>June 30, 2006</u>
Total assets	\$1,372,252
Total liabilities	28,109
Total joint venture equity	1,344,143
Fund equity to be used for specific purposes	64,297
Total revenues	285,320
Total expenditures	276,680

The City of Davison's interest in the Authority's net assets as of June 30, 2006, was \$426,615. However, the majority of the Senior Citizens Authority's assets were purchased with federal funds so any income from the sale of these assets would revert to the federal agency.

2. In January 1972, the City of Davison entered into a joint venture with Davison Township and Richfield Township to create the Davison Richfield Area Fire Authority. The purpose of the Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Authority is governed by a seven member board appointed by the governing bodies of the City and Townships. The agreement calls for each municipality to pay for each fire run to a point within its jurisdictional boundary.

During the year ended June 30, 2006, the City was billed \$114,934 by the Authority. At year end, the City owed \$18,734 to the Authority for fire run services.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at Authority headquarters.

City of Davison
Notes to Financial Statements
June 30, 2006

III. Other information – (continued)

E. Joint ventures – (continued)

2. – (continued)

The following is a summary of selected financial information of the Fire Authority:

	<u>Year Ended</u> <u>June 30, 2006</u>
Total assets	\$2,942,762
Total liabilities	53,022
Total joint venture equity	2,889,740
Total revenues	679,304
Total expenditures	480,412
Operating subsidy from City	114,934

F. Commitments

Trash collection:

The City has entered into a non-cancelable three year contract for trash collection beginning July 1, 2005. The rates in the contract increase by year. Future special assessments paid by residents will cover the costs of the contractual commitment.

G. Upcoming reporting change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the City’s financial statement for future reporting periods.

Required Supplementary Information

City of Davison
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,408,569	\$ 1,403,529	\$ 1,333,346	\$ (70,183)
Licenses and permits	32,100	18,100	17,266	(834)
Intergovernmental revenue				
State and local	690,359	945,359	699,735	(245,624)
Charges for services	97,100	78,100	92,362	14,262
Fines and forfeits	40,000	40,000	28,843	(11,157)
Interest income	52,300	55,000	91,823	36,823
Miscellaneous revenues	152,054	145,664	180,008	34,344
Total revenue	2,472,482	2,685,752	2,443,383	(242,369)
Expenditures				
Current:				
Legislative	26,300	26,300	19,968	6,332
General government:				
Executive expenses	136,154	136,154	136,995	(841)
Clerk	65,083	65,083	48,810	16,273
Treasurer	80,050	80,050	80,961	(911)
Election	6,500	6,500	4,785	1,715
Planning commission	9,950	9,950	9,050	900
Board of appeals	2,780	2,780	100	2,680
Administration expenses	392,016	392,016	335,463	56,553
Hall and grounds	81,432	81,432	317,609	(236,177)
Less reimbursement from:				
Local streets	(19,400)	(19,400)	(20,139)	739
Major streets	(19,400)	(19,400)	(20,139)	739
Water	(175,766)	(175,766)	(160,320)	(15,446)
Sewer	(175,766)	(175,766)	(160,320)	(15,446)
Equipment	(13,187)	(13,187)	(10,313)	(2,874)
Public safety:				
Police protection	1,206,352	1,206,352	1,121,793	84,559
Fire protection	146,600	146,600	114,934	31,666
Building and code enforcement	126,948	126,948	121,058	5,890
Public works:				
Public works	236,894	236,894	228,763	8,131
Street lighting	59,400	59,400	52,735	6,665
Public improvements	80,468	80,468	61,794	18,674
Sanitation	36,000	36,000	1,427	34,573
Off street parking	7,812	7,812	4,089	3,723
Recreation and culture:				
Senior citizens	37,000	37,000	35,063	1,937
Parks and recreation	173,381	320,424	158,263	162,161
Library	45,433	45,433	31,836	13,597
Community development	21,428	21,428	19,835	1,593
Total expenditures	2,574,462	2,721,505	2,534,100	187,405
Excess of Revenue Under Expenditure:	(101,980)	(35,753)	(90,717)	(54,964)

City of Davison
Budgetary Comparison Schedule (continued)
General Fund
Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Other Financing Sources (Uses)				
Proceeds from issuance of debt	-	-	249,207	249,207
Transfers out	(10,000)	(10,000)	(25,500)	(15,500)
Total other financing sources (uses)	(10,000)	(10,000)	223,707	233,707
Net change in fund balance	(111,980)	(45,753)	132,990	178,743
Fund balance - Beginning of year	1,403,741	1,403,741	1,403,741	-
Fund balance - End of year	<u>\$ 1,291,761</u>	<u>\$ 1,357,988</u>	<u>\$ 1,536,731</u>	<u>\$ 178,743</u>

City of Davison
Budgetary Comparison Schedule
Major Street Fund
Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental revenue:				
State	259,716	\$ 259,716	\$ 261,648	\$ 1,932
Interest income	5,000	5,000	20,455	15,455
Total revenue	264,716	264,716	282,103	17,387
Expenditures				
Current:				
Highways and streets	213,036	213,036	204,512	8,524
Total expenditures	213,036	213,036	204,512	8,524
Excess of Revenue Over Expenditures	51,680	51,680	77,591	25,911
Other Financing Sources (Uses)				
Transfers in	5,000	5,000	5,000	-
Transfers out	(58,680)	(58,680)	(58,680)	-
Total other financing sources (uses)	(53,680)	(53,680)	(53,680)	-
Net change in fund balance	(2,000)	(2,000)	23,911	25,911
Fund balance - Beginning of year	503,141	503,142	503,142	-
Fund balance - End of year	<u>\$ 501,141</u>	<u>\$ 501,142</u>	<u>\$ 527,053</u>	<u>\$ 25,911</u>

City of Davison
Budgetary Comparison Schedule
Local Street Fund
Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance Amended Budget
Revenue				
Intergovernmental revenue:				
State	\$ 90,060	\$ 90,060	\$ 85,637	\$ (4,423)
Interest income	4,300	4,300	8,354	4,054
Total revenue	94,360	94,360	93,991	(369)
Expenditures				
Current:				
Highways and streets	164,200	164,200	128,510	35,690
Total expenditures	164,200	164,200	128,510	35,690
Excess of Revenue Over (Under) Expenditures	(69,840)	(69,840)	(34,519)	35,321
Other Financing Sources (Uses)				
Transfers in	69,840	69,840	63,680	(6,160)
Total other financing sources (uses)	69,840	69,840	63,680	(6,160)
Net change in fund balances	-	-	29,161	29,161
Fund Balance - Beginning of year	195,960	195,960	195,960	-
Fund balance - End of year	<u>\$ 195,960</u>	<u>\$ 195,960</u>	<u>\$ 225,121</u>	<u>\$ 29,161</u>

City of Davison
Required Supplementary Information
Analysis of Funding Progress

Plan Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/c)
<u>Non-Union Pension Plan:</u>							
6/30/06	7/1/05	\$350,754	\$ 945,195	\$594,441	37.11%	\$381,841	155.68%
6/30/05	7/1/04	247,097	827,175	580,078	29.87	373,317	155.38
6/30/04	7/1/03	108,021	620,864	512,843	17.40	335,152	153.02
6/30/03	7/1/02	393,545	855,859	462,314	45.98	331,364	139.52
6/30/02	7/1/01	1,009,142	1,083,213	74,071	93.16	271,146	27.32
6/30/01	7/1/01	1,268,468	1,253,940	-	100.00	345,748	-

Combining Fund Statements and Fund Descriptions

**City of Davison, Michigan
Nonmajor Governmental Funds
Summary Descriptions
June 30, 2006**

Special Revenue Funds

The Community Development Fund – was established to account for the receipt and disbursements of grants received from Community Development Block Grants.

The Capital Improvement Fund – used to accumulate resources for the payment of sanitation expenditures.

Debt Service Funds

The 1998 General Obligation Bond Fund – was established to accumulate resources for the payment of storm improvement bonds.

The 1996 Street Improvement Bond Fund – was established to accumulate resources for the payment of street improvement bonds.

The Building Authority Bond Fund – was established to accumulate resources for the payment of building authority bonds.

Capital Projects Funds

The 1987 Storm Drain Improvement Fund – was established to account for storm drain improvements.

The 1996 Street Improvement Fund – was established to account for street improvements.

**City of Davison, Michigan
Fiduciary Funds
Summary Descriptions
June 30, 2006**

Agency Funds

The Tax Collection Fund – is used to account for cash receipts and disbursements for property taxes levied.

City of Davison
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>Community Development</u>	<u>Capital Improvements</u>	<u>1998 General Obligation Bonds</u>	<u>1996 Street Improvement</u>
Assets				
Cash and cash equivalents	\$ 542	\$ 9,297	\$ 152,759	\$ 4,904
Liabilities and Fund Balance				
Liabilities				
Due to other funds	\$ 542	\$ -	\$ -	\$ -
Due to other governments	-	-	2,132	-
Total liabilities	542	-	2,132	-
Fund Balances				
Unreserved, undesignated	-	9,297	150,627	4,904
Total fund balances	-	9,297	150,627	4,904
Total liabilities and and fund balances	\$ 542	\$ 9,297	\$ 152,759	\$ 4,904

Building Authority Bonds	Capital Projects		Total
	1987 Storm Drain Improvements	1996 Street Improvements	
\$ 170	\$ 28,375	\$ 10,629	\$ 206,676
\$ -	\$ -	\$ -	\$ 542
-	-	-	2,132
-	-	-	2,674
170	28,375	10,629	204,002
170	28,375	10,629	204,002
\$ 170	\$ 28,375	\$ 10,629	\$ 206,676

City of Davison
Combining Statement of Revenue, Expenditures, and Changes in Fund Net Assets
Nonmajor Governmental Funds
Year Ended June 30, 2006

	<u>Special Revenue</u>	<u>1998 General</u>
	<u>Capital</u>	<u>Obligation</u>
	<u>Improvements</u>	<u>Bonds</u>
Revenue		
Property taxes	\$ -	\$ 137
Charges for services	191,588	-
Interest income	5,508	10,922
	<hr/>	<hr/>
Total revenue	197,096	11,059
	<hr/>	<hr/>
Expenditures		
Current:		
Sanitation	199,420	-
Capital outlay	-	-
Debt service:		
Principal payments	-	100,000
Interest and fiscal charges	-	6,438
	<hr/>	<hr/>
Total expenditures	199,420	106,438
	<hr/>	<hr/>
Net change in fund balances	(2,324)	(95,379)
	<hr/>	<hr/>
Fund balances - Beginning of year	11,621	246,006
	<hr/>	<hr/>
Fund balances - End of year	\$ 9,297	\$ 150,627
	<hr/> <hr/>	<hr/> <hr/>

Debt Service		Capital Projects			
1996 Street Improvement	Building Authority Bonds	1987 Storm Drain Improvements	1996 Street Improvements	Total	
\$ 168	\$ -	\$ -	\$ -	\$	305
-	-	-	-		191,588
660	6	1,065	305		18,466
828	6	1,065	305		210,359
-	-	-	-		199,420
-	-	24,005	-		24,005
125,000	-	-	-		225,000
3,000	-	-	-		9,438
128,000	-	24,005	-		457,863
(127,172)	6	(22,940)	305		(247,504)
132,076	164	51,315	10,324		451,506
\$ 4,904	\$ 170	\$ 28,375	\$ 10,629	\$	204,002

City of Davison
Budgetary Comparison Schedule
Capital Improvement Fund
Year Ended June 30, 2006

Capital Improvement

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Charges for services	189,420	\$ 189,420	\$ 191,588	\$ 2,168
Interest income	1,500	1,500	5,508	4,008
Total revenues	190,920	190,920	197,096	6,176
Expenditures				
Sanitation	199,420	199,420	199,420	-
Total expenditures	199,420	199,420	199,420	-
Net change in fund balance	(8,500)	(8,500)	(2,324)	6,176
Fund balances - Beginning of year	11,621	11,621	11,621	-
Fund balances - End of year	\$ 3,121	\$ 3,121	\$ 9,297	\$ 6,176



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October 16, 2006

To Honorable Mayor and City Council
City of Davison

Dear To Honorable Mayor and City Council:

In planning and performing our audit of the financial statements of City of Davison (City) for the year ended June 30, 2006, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Bank reconciliations

Complications resulting from the conversion of accounting software resulted in bank reconciliations not being performed timely starting in January 2006. Bank reconciliations are a crucial component of the internal control system and should be performed monthly on a timely basis.

Due to and from

Internal receivables and payables between funds should be periodically reviewed and reconciled to verify they balance between funds..

Sewer and water receivables

During the current year the utility billing software was upgraded and became fully integrated with the general ledger software. Adjustments made in the utility billing software were not posted to the correct accounts in the general ledger. The accounting records were corrected at year end and the treasurer is currently working with the software vendor to correct the coding errors. To ensure the utility billing software is posting entries correctly to the general ledger the receivable aging report must be reconciled monthly to the balance per the general ledger.

Cash register

Checks received at the front counter were being placed in a drawer at the front counter and not in the cash register. To ensure all forms of payment are properly secured, they should be placed in the cash register upon their receipt. As of the date of this letter, the treasurer has informed staff that checks should be placed in the cash register immediately upon receipt.

ACH Policy

Currently the City pays for the MERS contribution and payroll taxes electronically. In accordance with Public Act 738 of 2002 the City should adopt a resolution authorizing electronic payments.

Review Documentation

Many procedures prepared by one employee are approved by another, however the approval is not documented. We suggest any time work is reviewed, the reviewer initial the work to document the review has taken place.

This report is intended solely for the information and use of the Michigan Department of Treasury, Mayor and City Council and City management, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, reading "Peggy Haw Jury". The signature is fluid and cursive, with the first name "Peggy" being more prominent.

Peggy Haw Jury, CPA